Actuarial Memorandum and Certification

General Information

Company Identifying Information:

Company Legal Name:	Coventry Health and Life Insurance Company
State:	Missouri
HIOS Issuer ID:	44240
Market:	Individual
Policy Form(s):	
Effective Date:	01/01/2016
Form Filing Tracking Numbers:	AETN-129996428, AETN-129996423, AETN-129996372, AETN-129996432

Company Contact Information:
Name: [redacted]
Telephone Number: [redacted]

1. Purpose, Scope, and Effective Date

The purpose of this filing is to:

1) Provide support for the development of the Part I Unified Rate Review Template;
2) Provide support for the assumptions and rate development applicable to the products supported by the policy forms referenced above;
3) Provide summaries of the benefit details for the products/plan designs referenced by this filing.

The development of the rates reflects the impact of the market forces and rating requirements associated with the Patient Protection and Affordable Care Act (PPACA) and subsequent regulation.

As stated more fully below, the rates requested in this submission assume that members who purchase through the federal-facilitated marketplace will remain eligible for federal subsidies. We reserve the right to amend or withdraw this rate filing if the Supreme Court holds otherwise in the pending case of King v. Burwell.

These rates are for plans issued in conjunction with our Qualified Health Plan (QHP) application in Missouri beginning January 1, 2016. The rates comply with all rating guidelines under federal and state regulations. The filing covers plans that will be available on and off the public Marketplace in Missouri.

2. Proposed Rate Increase

Monthly premium rates for all Individual Market products in Missouri are being revised for effective dates January 1, 2016 through December 31, 2016.

A. Reason for Rate Increase(s):

[redacted]

EXHIBIT
B

B. Variation in Rate Changes by Plan/Product:
Rate changes differ by plan for the following reasons:

- Provider cost estimates have been updated, and the change differs based on network.
- Changes in cost sharing differ by plan in order to maintain compliance with Actuarial Value and other regulatory requirements.
- Our internal pricing models have been updated to reflect more current information on levels of induced demand associated with different benefit designs in the large group market. These changes impact our estimates of the relative costs of the plan designs that will be offered.
- Updates to family deductible and out of pocket maximum provisions on HSA-compatible plans to comply with new federal regulations.

The weighted average increase across plans based on current ACA-compliant membership mapping, inclusive of the impact of benefit and cost sharing changes, is 25.9%. The minimum increase is 6.3% and the maximum increase is 41.0%. The rate increase shown on WKSH-2 is significantly different than the rate increase cited above because the distribution of membership in 2016 by plans and products is significantly different than the distribution of membership in 2014. This is due to an expanded offering of products in both 2015 and 2016 and is based on the migration of membership we have seen in 2015 from higher cost products to lower cost products as well as the expected migration between plans we expect for 2016.

3. History of Rate Adjustments

- January 1, 2014 Initial introduction of these products
- January 1, 2015 13.5% average rate increase

4. Experience Period Premium and Claims

The base period data includes Transitional and ACA-compliant policies issued through Coventry Health and Life of Missouri.

A. Paid Through Date:
The experience data reported in Worksheet 1, Section I of the Part I Unified Rate Review Template reflects incurred claims from January 1, 2014 through December 31, 2014 and paid through February 28, 2015.

B. Premiums (Net of MLR Rebate) in Experience Period:
Experience period premiums are date-of-service premiums from our actuarial experience databases for non-grandfathered individual business in Missouri. Our internal projections indicate that no MLR rebate is expected to be paid in 2015 (for 2014 experience) for the Individual MLR Pool in Missouri. As such, no adjustment was made to premiums to account for expected rebates.

C. Allowed and Incurred Claims Incurred During the Experience Period:

Allowed claims come directly from the claim records for hospital and physician services. Capitated benefits, including pharmacy, use the capitation rate for incurred claims and the allowed claims are calculated as the incurred claims plus estimated cost sharing.

Incurred Claims are captured in our reporting systems as the total amount of claims paid including the enhanced benefits for reduced cost-sharing variant plans sold on the Exchange. We reduce the amount reported on Worksheet 1 of the URRT, by the estimated HHS payments for member cost-sharing based on the simplified approach as described by 45 CFR Part 156.430. These estimated are developed and applied to completed experience period at the policy level.

As noted above, the experience period reflects two months of paid claim run-off. The IBNP reserves account for approximately [redacted] of the experience period incurred claims.

Benefit Categories

Claim tagging is used to fit all fee-for-service medical claims into four categories: Hospital Inpatient, Hospital Outpatient, Physician Services, and Other Medical. Other medical services are an estimated portion of Hospital Outpatient claims including ambulance services, durable medical equipment, and prosthetics. The utilization for these services are counted by service type and rolled up into one utilization number for the total category. Inpatient utilization is counted as days; outpatient and other medical utilization is counted as services; and physician utilization is counted as visits. Capitated services are paid on a per member per month (PMPM) basis and have no utilization values attached. Although pharmacy is also capitated, the experience utilization by prescriptions is included.

5. Projection Factors

A. Changes in the Morbidity of the Population Insured:

The experience period data includes claims for both single risk pool policies issued in 2014 and non-grandfathered individual policies issued prior to January 1, 2014. The projected change in the morbidity of the population is based on modeling described in Addendum I. This modeling illustrates the changes in the two subsets of experience, current members and anticipated new entrants to the single risk pool, along with the anticipated change in the morbidity for each.

B. Changes in Benefits:

The products included in this filing include benefits necessary to comply with the Essential Health Benefit requirements. The experience data includes experience for both Single Risk Pool products that have essentially identical benefits and coverage issued outside the Single Risk Pool which does not cover all EHBs. The projection factor reflects the pro-rated impact of these additional benefits.

The change in projected utilization due to changes in benefits is also considered. As cost sharing decreases (measured by increasing Actuarial Value), utilization increases. This pattern is reflected in the factors that are built into the federal risk adjustment mechanism that started in 2014. The federal risk adjustment program factors and other proprietary models were considered in the development of the utilization change. The average cost sharing in the experience period was compared with the average cost sharing in the projection period. From the average cost sharing change, an expected utilization change was derived.

C. Changes in Demographics:

Experience data was normalized for projected changes in the age/gender mix and area mix using internally-developed factors. Exhibit B contains detail on the calculations of the impact of demographic mix shifts.

D. Other Adjustments:
The 'Other' adjustment include [redacted]

E. Trend Factors (Cost/Utilization):
Anticipated annual trend from the experience period to the rating period for the product line is as follows:

Component	Unit Cost	Utilization	Total Trend
Medical	[redacted]	[redacted]	[redacted]
Pharmacy	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

a. Medical Trend
Allowed medical trend includes known and anticipated changes in provider contract rates, severity and medical technology impacts, and expected changes in utilization. The impact of benefit leveraging is accounted for separately in the projected paid to allowed ratio.

b. Pharmacy Trend
Pharmacy trend considers the impact of formulary changes, patent expirations, new drugs, other general market share shifts, and overall utilization trend.

6. Credibility Manual Rate Development
A. Source and Appropriateness of Experience Data Used:
The source data for our manual rate is the experience incurred from January 2014 to December 2014 and paid through February 2015 for issuer 44240 in the Missouri Individual ACA-compliant market. The Individual ACA experience is considered an appropriate source for the manual rate since the risk profile, networks, and distribution of membership is the same distribution that is expected for 2016.

B. Adjustments Made to the Data:
The Individual ACA compliant experience used as the basis for the manual rate was adjusted in a similar manner as the base period experience for changes in population risk morbidity, benefits, and demographic and area normalizations. The data is further adjusted for projected changes in network, provider contract rates, and claims adjudication, in addition to unit cost and utilization trend, as discussed in Exhibit J.

7. Credibility of Experience
No credibility is assigned to the experience data. This is due to the use of alternate experience data that more accurately captures the essential characteristics of the market for which we are developing rates.

8. Paid-to-Allowed Ratio
We project the following distribution of membership by metallic tier, resulting in a projected paid to allowed ratio of approximately 67.5%:

Tier	Projected Membership	Paid to Allowed Ratio

	Distribution	
Catastrophic	0%	0%
Bronze	37%	60.5%
Silver	38%	68.1%
Gold	25%	78.2%
Total	100.0%	67.5%

9. Reinsurance and Risk Adjustment

A. Reinsurance – Experience Period

Reinsurance recoveries in the experience period incurred claims were calculated by assuming 100% recovery of paid claim amounts less HHS cost-sharing payments between $45,000 and $250,000. Plan information is known on paid claims and thus, recoveries are listed in the appropriate HIOS ID on Worksheet II

B. Reinsurance – Projection Period

[redacted]

C. Risk Adjustment – Experience Period

[redacted]

D. Risk Adjustment – Projection Period

[redacted]

E. Risk Corridors

The risk corridors program is intended to protect carriers from significant deviation between actual results and carriers' projections, and as such, does not impact the required premium on a prospective basis.

10. Non-Benefit Expenses and Profit & Risk

The retention portion of the projected premium is [redacted]%. This was developed from the following items and approximated as shown:

1. Taxes and Fees [redacted]:
   a. [redacted]

d. [redacted]

3. [redacted]

The Risk Adjustment Program User Fee and the Reinsurance Contribution have been reflected in the risk adjustment and reinsurance components of incurred claims. The Exchange User Fee is applied as an adjustment to the Index Rate at the market level.

These prospective expenses are based on historical expense levels, current-year projections, and projected changes in expenses, inflation, and membership. The profit target is consistent with the target used in pricing our 2015 plans.

11. Projected Loss Ratio

The projected MBR for this filing calculated in the traditional way is [redacted]. The expected 2016 MLR for this filing, as defined by PPACA and before any credibility adjustment, is [redacted] This differs slightly from the implied loss ratio on WKSH-1 due to the different treatment of Reinsurance and Risk Adjustment.

Exhibit K illustrates the MLR projection.

12. Single Risk Pool

The plans and rates included in the Part I URRT are those for all plans we intend to offer in the Individual market in MO through Issuer ID 44240. The proposed rates comply with the Single Risk Pool requirements of 45 CFR §156.80(d). Rates for plans that may be renewed outside the Single Risk Pool (due to either being grandfathered or permissible transitional offerings) are not covered in this filing.

13. Index Rate

The index rates for the experience and projection periods are set equal to the actual and projected allowed claims, respectively, less non-essential health benefits (non-EHBs).

The index rate reflects the projected mix of business by plan. The AV pricing values for each plan are set based on the actuarial value and cost-sharing design of the plan, the plan's provider network, delivery system characteristics, and utilization management practices, the impacts (as applicable) of benefits in addition to EHBs and catastrophic eligibility criteria, and the distribution and administrative costs applicable to the plan/product. Rates do not differ for any characteristic other than those allowable under the regulations as described in 45 CFR 156 §156.80(d)(2).

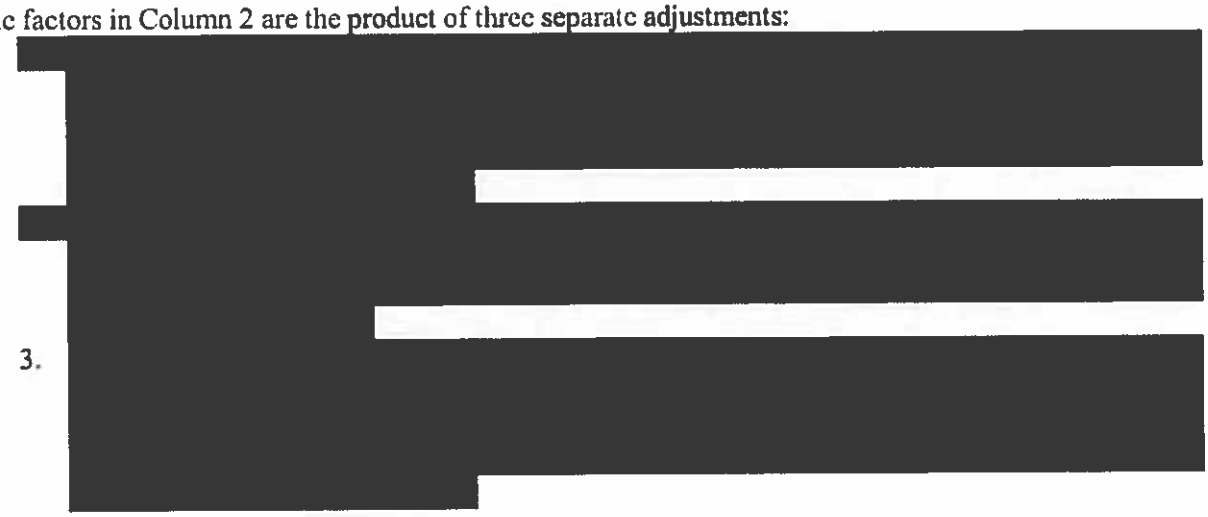
14. Market-Adjusted Index Rate

Exhibit E-1 illustrates the development of the Market Adjusted Index Rate. The three adjustments (Transitional Reinsurance, Risk Adjustment, and Exchange User Fees) were discussed previously. The reinsurance and risk adjustments on Worksheet 1 of the URRT are displayed on a paid-basis. The exchange user fee is estimated as a PMPM based on the target premium rate. The values reflected in Exhibit E-1 have each been divided by the paid to allowed ratio to convert them to an allowed-basis.

15. Plan-Adjusted Index Rates

Exhibit E-2 illustrates the development of the Plan Adjusted Index Rates, and displays each plan-specific adjustment made to the Market Adjusted Index Rate. The Plan Adjusted Index Rates are displayed in Column 7. The following briefly describes how each set of adjustments was determined.

A. Actuarial Value, Cost Sharing, and Tobacco:
The factors in Column 2 are the product of three separate adjustments:



3.

B. Distribution and Administrative Costs:
Column 3 reflects the adjustment for projected administrative costs, including sales, marketing and any commission expense, and profit & risk. These are discussed above in the "Non-Benefit Expenses and Profit & Risk" section, and exclude the Reinsurance Contribution, Risk Adjustment User Fee, and Exchange User Fee, which are reflected elsewhere. These expense and profit assumptions do not vary by plan.

C. Provider Network, Delivery System, and Utilization Management:
The factors in Column 4 reflect the impact of differences in the network size, efficiency, and provider contract terms. We worked with our contracting area and other subject matter experts to review the impact of these differences and the expected impact on allowed claims.

D. Benefits in addition to EHBs:
The factors in Column 5 adjust for the impact of benefits in addition to EHBs.

The products discussed in this filing provide coverage for only those benefits defined as Essential Health Benefits (EHB). Hence, all factors in Column 5 are 1.00.

E. Catastrophic Plan Eligibility:
This filing does not include catastrophic plans.

F. Experience Period Plan Adjusted Index Rates
Worksheet 2 of the URRT displays the Plan Adjusted Index Rates for the experience period. Since these values were not explicitly developed as part of our 2014 rate filings, we have approximated the values that would have been filed. The approach used to develop these values starts with the 2014 plan-specific base rates (the premium rate that would have been charged for a member with 1.0 age, area, and tobacco factors), and multiplies them by the average age and area factors that were projected in the 2014 filing.

16. Calibration
A. Age Curve Calibration:
The age factors are based on the HHS Default Standard Age curve. The factors are shown in Exhibit D.

We project a premium-weighted average age factor for the 2016 membership of [redacted] using the prescribed age curve. The age most closely corresponding to the weighted average age factor [redacted] We determine a calibration factor [redacted] by taking the reciprocal of the weighted average age factor. The projected age distribution is based on the combined State enrollment for all Individual membership as of March, 2015.

B. Geographic Factor Calibration:
Exhibit C summarizes the rating area definitions and factors and displays the projected membership by area and the projected average area factor of [redacted] The calibration factor is the reciprocal, or [redacted].

C. Quarterly Trend Calibration:
Not applicable.

17. Consumer-Adjusted Premium Rate Development
Rates are determined using the prescribed member build-up approach. In the event that a family includes more than three child dependents under age 21, only the three oldest child dependents will be considered in determining the family's premium. Additional child dependents (non-billable members) will not be included in the rate calculation.

The premium for each billable member is calculated as:
Calibrated Plan Adjusted Index Rate * Age Factor * Area Factor * Tobacco Factor

The resulting rate is rounded to the nearest cent, and rates are then summed for all billable family members.

As an example of this calculation, consider a family living in Jackson County that enrolls in the W-MO Coventry Silver $10 Copay plan. Assume that the parents are ages 42 and 40 and have children ages 13, 11, 8, and 6, and no family member uses tobacco. The rate for this family is calculated as:

The family's final monthly rate is the sum of the member rates, or $[redacted] Consistent with the limit on the number of billable dependents, no premium will be charged for the youngest family member in this example.

18. AV Metal Values
The AV Metal Values on Worksheet 2 were based on the AV Calculator. As applicable, entries were modified to reflect the plan appropriately and/or adjustments were made for plan design features that could not be entered in the calculator per 45 CFR Part 156, §156.135. The accompanying certification discusses how the benefits were modified to fit the parameters and the development of any adjustments. The AV screen shots provide detail on the modified entries and adjustments to AV, as applicable.

19. AV Pricing Values
The AV Pricing Values are calculated as the ratio of the Plan Adjusted Index Rate to the Market Adjusted Index Rate. The adjustments reflected in the AV Pricing Values are discussed in Section 15. AV Pricing Values do not differ based on morbidity differences or benefit selection anticipated within the Single Risk Pool.

20. Membership Projections and Cost Sharing Reduction Subsidy Estimates
Exhibit A summarizes the membership projections by plan and plan variation. Membership projections are based on historical experience, enrollment in ACA-compliant plans through January 2015, and our

expectations for future sales as additional members move to these plans from grandfathered and transitional plans.

We assume that total enrollment will be similar to our current enrollment.
Cost sharing reduction subsidy estimates are determined by calculating the difference in the Metal AV for the standard plan variation and the CSR variation, and multiplying the value by the plan's projected allowed claims PMPM and the membership projected in the CSR variation.

21. Terminated Products
The following products will be closed to new sales prior to January 1, 2016:

- 44240MO006

Consistent with the URRT instructions, experience for non-single risk pool terminated products is reported in aggregate under the terminated product with the largest membership in the experience period.

A mapping of 2014 ACA-compliant plans to 2016 plans is provided in Exhibit I. The exhibit also identifies plans that have been terminated and will not be offered in 2016.

22. Plan Type
All plans are consistent with the plan type indicated on Worksheet 2.

23. Warning Alerts
Some plans in this filing were offered on the Marketplace in 2014. We have reported the estimated cost share reduction subsidies on Row 65 of Worksheet 2. The Validation Report incorrectly indicates that these amounts should be zero for 2014.

The Experience Period Plan Adjusted Index Rate on Worksheet 2 differs from the Experience Period Premium PMPM on Worksheet 1 since the Experience Period Premium reflects the actual enrollment mix for all non-grandfathered business in the market in 2014 while the average Plan Adjusted Index Rate reflects the projected (vs. actual) ACA mix for single risk pool experience and a zero rate for non-single risk pool experience.

For the same reason, Total Premium (TP) differs between Worksheets 1 and 2.

The Experience Period Incurred claims and Incurred Claims PMPM on Worksheet 2 adjust for the impacts of Reinsurance and Risk Adjustment. The Incurred Claims on Worksheet 1 are not adjusted for the impact of Reinsurance and Risk Adjustment. The warning alerts on rows 67 and 72 of Worksheet 2 result from the different treatment of Reinsurance and Risk Adjustment on the two worksheets.

24. Benefit Design
This filing includes the following standard plans: three Bronze, two Silver, and one Gold.

25. Marketing
As described above, some of these plans will be made available through the public Marketplace. In addition, plans will be marketed through brokers and general agents, and directly to consumers through direct mail, telemarketing, and the internet. Marketing and distribution approaches may change from time to time at management's discretion.

26. Underwriting

Aetna will verify applicant eligibility for these plans based on any applicable age or geographic limitations. Aetna may rely on information provided by the Marketplace as verification of eligibility.

Additionally, with respect to determining the applicable premium risk class due to tobacco-use status, the underwriting criteria will be consistent with the communicated federal thresholds. Tobacco use will be determined by use of tobacco on average of four or more times per week (excluding religious or ceremonial uses) within no longer than the past six months.

27. Renewability
These policies are guaranteed renewable as required under §2703 of the Public Health Service Act.

28. Company Financial Condition
As of December 31, 2014, the capital and surplus held by Coventry Health and Life Insurance Company was approximately [redacted] This amount is disclosed in the Company's statutory financial statement dated December 31, 2014. The Company issues commercial and Medicare Advantage coverage in various states for multiple business segments, including to large employer, small employer, and individual purchasers.

Reliance
While I have reviewed the reasonableness of the assumptions in support of both the preparation of the Part I Unified Rate Review Template and the assumptions in support of the rate development applicable to the products discussed in this filing, I relied on the expertise of the following noted individuals, along with work products produced at their direction, for the following items:

[redacted]

Certification
As stated more fully below, the rates requested in this submission assume that members who purchase through the federal-facilitated marketplace will remain eligible for federal subsidies. We reserve the right to amend or withdraw this rate filing if the Supreme Court holds otherwise in the pending case of *King v. Burwell*.

While this memorandum discusses both our development of rates for these products and the completion of the Part I Unified Rate Review Template (URRT), the Part I URRT does not demonstrate the process used by Aetna to develop the rates. Rather, it represents information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for

Federally-facilitated marketplaces, and for certification that the index rate is developed in accordance with Federal regulation, is used consistently, and is only adjusted by the allowable modifiers. The information provided above is intended to comply with these requirements.

I, [redacted] am a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and am qualified in the area of health insurance. I hereby certify that to the best of my knowledge and judgment:

1. This rate filing is in compliance with the applicable laws and regulations of Missouri, the requirements under federal law and regulation, and all applicable Actuarial Standards of Practice, including but not limited to:

    a. ASOP No. 5, Incurred Health and Disability Claims
    b. ASOP No. 8, Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health
    c. ASOP No. 12, Risk Classification
    d. ASOP No. 23, Data Quality
    e. ASOP No. 25, Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages
    f. ASOP No. 26, Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans
    g. ASOP No. 41, Actuarial Communications.

2. The Projected Index Rate is:
    a. In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1)),
    b. Developed in compliance with the applicable Actuarial Standards of Practice,
    c. Reasonable in relation to the benefits provided and the population anticipated to be covered,
    d. Neither excessive, deficient, nor unfairly discriminatory.

3. The Index Rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan-level rates.

4. The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.

5. The geographic rating factors reflect only differences in the costs of delivery (which include unit costs and provider practice pattern differences) and do not include differences for population morbidity by geographic area.

6. The AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template for all plans. Adjustments made to reflect benefit features not handled by the AV Calculator are discussed in the attached certification required by 45 CFR Part 156, §156.135.

The projected index rate assumes that members are eligible to receive federal subsidies. As of the date below, the Supreme Court of the United States is considering whether those subsidies are lawful (King v. Burwell). I would not be able to certify that the proposed rates are adequate if the Supreme Court rules

that the subsidies are not lawful. Accordingly, Aetna reserves the right to withdraw and/or amend this rate submission in the event of such a Supreme Court ruling.

August 20, 2015

Date

Coventry Health and Life